

HOW WILL AGRICULTURAL E-MARKETS EVOLVE?

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Good afternoon.

As I stand before you today, I am actually living the title of my presentation. In our experience, it is no longer a question of if agricultural e-markets will evolve, but how.

One week ago today, Rooster.com and Pradium announced their intention to merge their businesses. Both companies have complimentary online agricultural exchanges. This proposed merger connects exchanges that were targeting opposite ends of the food chain. At Rooster.com, our customers are producers, retailers, elevators and processors. Pradium connects traders with banks, freight suppliers, exporters and the futures market. The merger will create a clear path connecting the entire supply chain.

At Rooster.com, we draw a clear distinction between e-commerce and e-businesses. In our world, e-commerce is simply the process by which a producer logs on to the Internet and purchases a pallet of Roundup Ultra. **We are not in the business of e-commerce.**

In our broad view, e-business is about connectivity in agriculture. We are in the business of e-business. Our mission is to facilitate connectivity on nearly every level, for every transaction.

We see channel connectivity evolving. And it's being driven by three factors. The convergence of information technology, input and output trait technology, and production technology, is driving the formation and organization of more coordinated supply chains and supply networks.

Entrepreneurs launch businesses like Pradium and Rooster.com because they listen to what people in the channel are saying. And then smart businesses people capitalize on those needs by creating new products, services and technologies. We have already invested millions of dollars in people and technologies that will connect the supply chain. So, as you can imagine, we are listening carefully to everything that everyone involved has to say.

Let's begin by reviewing what producers are saying. Their greatest challenge is crop marketing and profitability. I greatly admire the many producers who support their families and create profit in a business where they buy inputs at retail prices, and sell their products at wholesale.

The Freedom to Farm Bill gave producers more control over the crops and acreages they plant each spring. In return, subsidies were reduced, and market forces more directly determine the prices they receive. In an era of low crop prices, there is obviously much debate about the merits of this plan.

While those discussions are taking place, we think we have another solution. Connecting the supply chain in agriculture will expose more producers to more markets, with more transparency. As a result, corn growers in Indiana can make better decisions about the acreage they plant, and the price they expect to receive.

Producers are demanding that they share financially in the efficiencies created by e-commerce. E-business gives them more access to available markets, and direct participation in how their crops are priced.

Producers also need local crop marketing information. We enable producers to view grain bids online from local elevators. Technology enables producers to choose the elevators they want to do business with, and it presents the information according to the criteria that's most important to them.

The first advantage is immediate access to information. The second is efficiency. Eight phone calls and 30 minutes do not guarantee producers the best price. And an extra few pennies per bushel are pure profit.

The final point we hear from producers is that the great majority want local supplier involvement. The core piece of web learning from the consumer and business-to-business e-commerce worlds is clear – bricks and mortar (or in our case, galvanized steel and rivets) are the cornerstones of commerce. The buzzword for bypassing the existing distribution channel was disintermediation -- and disintermediation is dead.

Now, what are retailers and elevators saying about e-business? They expect to be included in e-commerce. At the same time, maintaining brand identification online is crucial.

They also want processors involved in an e-commerce marketplace. And, more broadly, they want greater connectivity to the supply chain. For retailers, a critical element is the ability to accurately identify and trace grain through the channel.

The message that comes across most strongly, is that not having an e-commerce strategy is a greater risk to them than Internet price comparisons by producers. Retailers and elevators also recognize that they need help getting started down the road to e-business.

What are processors and exporters saying? First, they need to maximize their full capacity. Secondly, they see a downside risk in handling biotech grain. They are also demanding traceability for each truck- or barge-load of grain they handle. On the positive side, they also see opportunity in value-added and identity-preserved crops. Overseas buyers pay a premium for organic or clear-hilum soybeans. Fortunately, both issues have the same solution.

From a broad view, e-business must offer advantages to every profit center in the chain. If, at any point along the way, a participant does not participate in the payoff, the whole value proposition is at risk.

The first point of contact in e-business is the local community. Greater connectivity means that Kenny West of Knox County, Illinois, has customers in mainland China. The extra profit from those grain sales results in more profitable sales for the local seed dealer. It means equipment upgrades from the local implement dealer. These dollars create more opportunities for local professional to help that grower manage his or her business and finances.

Local elevators handle the grain and facilitate the transactions. The payoff to them is higher margins and better utilization of assets. More, higher-skilled jobs emerge to help the producer and elevator capture more value for every bushel of grain.

Online transactions also reduce paperwork and manual processes. Documents flow through the supply chain without chalkboards, notepads, phones, clocks or time zone concerns. Gone will be faxing, re-keying, calculation errors and time delays. Employees are freed to concentrate on higher-value activities.

E-business offers grain traders market transparency, price discovery, liquidity and trading decision support. Internet connectivity brings traders together with banks, freight suppliers, exporters, end users and futures markets. Small traders benefit as much as, or more than, large traders.

The core value of supply chain connectivity is more access by all to more information. The benefit is communication among parties that didn't communicate before.

The payoff is increased competitiveness as a nation in a world economy. E-business creates market efficiencies that make U.S. agriculture a more reliable supplier at a competitive price.

The reason that I am here today is to ask for USDA support. The entire industry will be stronger for it. We need automated weights and measures, and online warehouse receipts. These crucial steps in the process guarantee standards and enable everyone to buy and sell without reservation. Adding connectivity to this process facilitates the market speed necessary for a competitive advantage in world markets.

Now, I'd like to offer detail and perspective about the role of Rooster.com and Pradium in the marketplace vision I've just communicated.

Both companies operate as independent entities that provide powerful, integrated offerings to the input and output sectors of agriculture. Pradium and Rooster.com are inclusive of, and connect, the entire supply chain – manufacturers, distributors, retailers, producers, elevators, traders, freight companies, processors and end users. The two companies supply the technology that more efficiently connects the entire marketplace. As independent companies, we host open, neutral marketplaces that are open to all participants. One of the most compelling reasons for the proposed merger is the development of a common technology platform for both first- and second-handle grain transactions.

Prior to the merger announcement, each company had targeted a significant segment of the supply chain in agriculture. However, the founders of Rooster.com and Pradium soon discovered that we can create incrementally more value for our customers if we link the entire agriculture industry. We will follow grain production from the initial seed, all the way to the Japanese processing plant.

In conclusion, I'd like to reinforce a few key points.

As a business leader, every thought that I've communicated today goes back to market efficiency. Connectivity is the cornerstone of efficiency that enables everyone to find a better price for what they're buying and selling. Equally important is information access, which enables everyone to react to the market more quickly. Finally, we feel very strongly that this value must also flow back to the producer.

E-business isn't the goal. It is the critical path that leads to efficient markets.

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